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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: Developing A Unified Intercarrier Compensation Regime
CC Docket No. 01-92

of I EL ti Inc.

Dear Ms. Salas,

Enclosed for filing by ALLTEL Communications Inc. are an original and four copies of its Comments in the matter referenced above. Should there be any questions regarding this matter, please contact the undersigned counsel.

Sincerely,

David C. Bartlett

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before The
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Developing A Unified Intercarrier	)	CC Docket No. 01-92
Compensation Regime	)	

COMMENTS
OF
ALLTEL COMMUNICATIONS, INC.

ALLTEL Communications, Inc.

David C. Bartlett
Assistant Vice President
Federal Regulatory Affairs
601 Pennsylvania Ave, NW
Suite 720
Washington, D.C. 20004
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Its Attorney

August 21, 2001

Executive Summary

ALLTEL shares the views expressed by the Commission in the Notice that it is necessary to make fundamental changes to the regulatory system that currently governs communication services and providers. The digital revolution has rendered obsolete numerous regulatory categories, definitions, rules and constraints. Obsolete regulatory schemes carried over and applied to new techno-economic circumstances are inefficient and undercut the fundamental goals of national telecommunications policy.

The Notice correctly singles out intercarrier compensation gaming schemes as wasteful and inefficient practices that send false signals to investors and entrepreneurs and cause inequitable transfers of wealth among carriers. It also correctly identifies that changing the method of cost recovery from substantial reliance on interconnecting carriers to exclusive reliance on customers cannot be done immediately or without substantial cost to some carriers, customers, parts of the country and investors.

Before any new intercarrier compensation mechanism can be implemented, several conditional safeguards (some involving corresponding changes in other rules and policies) must be in place for the proposal to succeed. Carriers have conditioned their networks to operate in the current recovery environment. If that environment dramatically changes, carriers must have ample opportunity to design the means to offset the potential harm caused by the changes. Adoption of the Multi-Association Group Plan' as proposed would assist rate of return ILECs in the transition. Universal service support mechanisms must be guaranteed in a new intercarrier compensation environment and carriers must have the flexibility to offer varied pricing options to their customers.

The mechanism that emerges from this rulemaking must apply to all carriers, networks and technologies equally, and be implemented in both interstate and intrastate jurisdictions simultaneously. Otherwise, the regulatory arbitrage that limits the current system will continue to infest the next regime.

The Commission specifically requests comment on the feasibility of using a bill and keep approach to achieve a unified regime for intercarrier compensation. While ALLTEL supports modifications to current cost recovery mechanisms, we do not support a transition at this time to bill and keep for those intercarrier transactions not currently operating under a bill and keep system. Far less dramatic measures will have equally beneficial effects. Our comments emphasize the conditional nature of our support for any changes and spell out both the policy goals that must drive a new regime and the conditions that necessarily must precede or accompany adoption of any new intercarrier compensation mechanism.

ALLTEL believes the Commission has the opportunity to strike a better balance among the goals of the Telecommunications Act of 1996.[2] The focus of much of the Commission's activity has been to prepare the way for and to provide a sustaining environment for competition. The issues in this proceeding will require the Commission to focus intently on adapting its processes to foster less regulation and greater investment while protecting universal service, especially in rural areas, and consolidating gains achieved in creating a more competitive marketplace.

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[1] *In the Matter of Multi-Association Group* ***(MAG)*** *Plan* ***for*** *Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers,* Report and Order, ***CC*** Docket 00-256, FCC 01-157 (rel. May **23,** 2001) ("MAG **plan").**
[2] Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 ("1996 Act").

For most carriers, the proposal to shift cost recovery from intercarrier settlements to carriers' customers will be disruptive given the scale and scope of existing revenue streams involved. Moreover, absent appropriate transitions, there could be dramatic winners and losers among classes of carriers, customers, services and locations. ALLTEL respectfully suggests the Commission reconvene a Rural Task Force-like entity to further examine the potential impact of a new intercarrier compensation mechanism based on a bill and keep or similar model.

In the course of considering and implementing changes, the Commission must take great care to identify and anticipate disruptions and provide safety nets, damage control mechanisms and other ameliorative devices to ensure transitional equity. There must be assurances that regulatory change will provide the flexibility both in time and regulatory latitude, for entities to adapt to the new rules.

Opportunities to allow ILECs to recover potentially large losses must be devised, i.e., allowing innovative pricing schemes, reducing the inefficiencies of asymmetrical regulation, sharing responsibilities for assuring universal service, and spreading the burden of carrier-of-last-resortobligations. Similarly, it is imperative that complementary changes in intrastrate rate regulation policies take place concurrently with any major interstate revision of intercarrier compensation. These and other safeguards to shield customers and their carriers-of-last-resortproviders (if only temporarily) should be conditions precedent to any major change and are, in any event, necessary to protect the public's long term interest.

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Before The
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Washington, D.C. 20554

In the Matter of	)	
	)	
Developing A Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	

COMMENTS
OF
ALLTEL COMMUNICATIONS, INC.

ALLTEL Communications, Inc., on behalf of its local exchange carrier affiliates and its various subsidiaries and corporate affiliates providing commercial mobile radio service ("CMRS") services (hereinafter "ALLTEL" or the "ALLTEL Companies") respectfully submits its comments in response to the Federal Communications Commission's (the "Commission") Notice of Proposed Rulemaking ("NPRM") in the above-captioned proceeding.[3]

ALLTEL is a diversified telecommunications and information services company headquartered in Little Rock, Arkansas. The ALLTEL companies largely serve small to mid-sized towns and cities where they provide a full complement of communications services and solutions including local wireline, competitive local exchange carrier ("CLEC"), long distance, internet, cellular, paging, and advanced digital wireless services.

The ALLTEL wireline companies consist of twenty-two **(22)** individual incumbent local exchange carriers ("ILEC") which provide integrated telecommunications services to approximately 2.6 million access lines in 15 states. The ALLTEL wireless operations

[3] In the Matter of Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92, ***Notice of*** *Proposed* ***Rulemaking*** FCC 01-132 (rel. April 27, 2001) ("Intercarrier Compensation Notice").

provide service to 6.4 million customers throughout the Southeastern, southwestern and Midwestern United States. Additionally, 1.2 million customers subscribe to ALLTEL long distance, and the company provides more than 200,000 customers with Internet access.

I. Introduction

The Commission is to be commended for implementing this comprehensive reevaluation of the regulatory patchwork that currently governs intercarrier compensation. With this NPRM, the Commission acknowledges the impediments, inconsistencies and inefficiencies of existing interconnection rate regulation and seeks a more permanent form of intercarrier compensation that will ultimately end the Commission's role as regulatory referee. ALLTEL agrees with the Commission that an intercarrier compensation mechanism is needed to encourage more efficient use of, and investment in, telecommunications networks, while providing for the equitable development of competition.[4] Consistent with the pro-competitive and deregulatory goals of the 1996 Act, ALLTEL endorses the Commission's effort to establish a cost recovery mechanism that minimizes the need for regulatory involvement, both now and as competition continues to develop.[5] The intercarrier compensation mechanism that ultimately flows from this proceeding will dramatically affect the future performance of the telecommunications industry and shape the welfare of its consumers, carriers and investors. During the transition, the Commissions must establish safeguards for rural consumers and the companies responsible for bringing both voice and broadband facilities to homes and businesses across America. As mentioned previously, ALLTEL

[4] ***Intercarrier*** *Compensation* ***Notice*** at ¶ 2.
[5] ***Id.***

believes a logical step towards this goal would be the implementation of interstate access reform set forth in the MAG plan that is currently pending before the Commission.

With this NPRM, the Commission hopes to find "market-oriented solutions [that] may provide more timely adjustment and avoid distortions resulting from incorrect or outdated regulatory decisions."[6] ALLTEL applauds this effort. These comments will discuss the shortcomings of the existing mechanism, the goals of a unified intercarrier compensation mechanism, the potential impact of a bill and keep regime, the practical consequences of a dramatic restructuring of the existing intercarrier compensation system and the safeguard conditions that must be in place prior to any transition.

II. Problems With the Existing Intercarrier Compensation Mechanism

A. The Existing System is Unnecessarily Administratively Burdensome

In the twenty-first century, competition in the telecommunications industry exists in a tenuous environment of patchwork rules and rates that results in avoidable administrative burdens on all carriers. Not only is the current regulatory framework of intercarrier compensation fraught with costly reporting requirements and administrative minutia, the basic tenets of the underlying cost model are being reevaluated; i.e.; transport costs (who is the "cost causer"); embedded costs vs. forward looking costs. Further study of these tenets is warranted.

The Commission poses the question, should efficiency "be the sole or paramount goal of intercarrier compensation?"[7] ALLTEL agrees with the Commission that increased efficiency based on deregulation must be a high **priority,** however, ALLTEL does not think adopting a bill and keep regime will encourage efficiency. The current

[6] ***Intercarrier Compensation Notice* ai** ¶ 34.
[7] *Id.* at ¶ 33.

level of regulatory intervention is ineffective, impractical and too often results in costly litigation, which delays investment and the provisioning of new services. **A** new intercarrier compensation regime based on bill and keep will likely have the same effect by detracting from rather than contributing to consumer welfare.

B. The Existing System Provides Opportunities for Regulatory Arbitrage

The Commission correctly emphasizes the incidence and impact of regulatory arbitrage and seeks to "eliminate or ameliorate most of the regulatory arbitrage opportunities caused by the existing . . . regulations."[8] **As** the intercarrier compensation system exists today, there is an incentive to distort state/interstate differences, reciprocal compensation, enhanced service provider exemptions and engage in other profit-maximizing behavior borne of the inconsistent and asymmetrical blend of regulation that currently exists when carriers originate, transport and terminate traffic.

The Commission deftly notes that "parties will revise or rearrange their transactions to exploit a more advantageous regulatory treatment, even though such actions, in the absence of regulation, would be viewed as costly or inefficient."[9] The resulting regulatory arbitrage distorts investment incentives and network efficiency by connecting profit to regulation rather than market conditions, thus creating the illusion of economic value where there is none. The proliferation of regulatory arbitrage, coupled with the technological advances of other communications platforms (voice over Internet protocol, wireless, cable and satellite service) will continue to erode current ILEC revenue streams and introduce additional pressures on universal service. We caution that the changes being proposed may well create other regulatory arbitrage opportunities,

[8] ***Intercarrier Compensation Notice*** **at ¶ *52*.**
[9] *Id.* at ¶ 12.

especially among intrastate and interstate services or among voice services offered via internet protocol versus traditional voice services over the public switched network. Therefore, the Commission should consider the broadest possible analysis of a new system and be willing to evaluate such "sacred cows" as the Internet Service Provider ("ISP") exemption or the universal service obligations of voice over Internet protocol providers.

C. The Existing System Encourages Inefficient Investment Decisions

Regulatory arbitrage encourages investment in facilities where value is derived exclusively from arbitrary administrative conventions. Such rules effectively tax some entities – consumers and investors – as a means of subsidizing others, all without increasing aggregate economic value. Arbitrage related to ISP-bound traffic is the most notorious example of regulatory intervention resulting in inefficient investment decisions. Numerous carriers based their business models on reciprocal compensation revenues derived from Internet bound traffic. By exploiting this regulatory loophole, these companies wagered their economic futures, and the dollars of their investors, on this continued stream of reciprocal compensation created predominantly by administrative rules that were applied on an inconsistent and untimely basis. Such arcane regulation also kept ISP traffic on the switched network which delayed deployment and improvement of technologies such as Digital Subscriber Line ("DSL").

Regulatory arbitrage is a regulatory problem. That does not mean, however, that it requires the ultimate regulatory solution, i.e., bill and keep. Other mechanisms such as unitary rates, or preferably greater pricing flexibility (thus, allowing the marketplace to establish rates) will reduce arbitrage, direct traffic to more efficient networks and better utilize excess bandwidth.

D. The Existing System Reflects Obsolete Market Conceptions

Technologies are rapidly converging in the marketplace. The Commission must not lose sight of the fact that the communications marketplace of the future will ultimately be driven by technological advancement. New policy initiatives must anticipate that new technology platforms will be competing for existing customers. The efficient intercarrier compensation mechanism of the future should ultimately apply to all technology platforms and networks in the same manner.

Consider Internet services. The consensus, based firmly in recent historical data, is that Internet Services will come to dominate those provided via different network protocols. Services provided via the Internet neither respect nor reflect most of the traditional boundaries and classifications of service used to define regulatory status. Internet services know no jurisdictional bounds; they are indifferent to local versus long distance distinctions; they ignore technological distinctions between, say, wireline and wireless propagation; and, most importantly, they are transparent with respect to different applications and content, i.e., voice, data, video, graphics, etc. Thus, as a practical matter all regulations based on these distinctions are obsolete.

Traditional models of business are blurring. Denoting traffic as intrastate or interstate, toll or local, voice or data, is becoming increasingly counterproductive. The fastest growing communications platforms are those that are not regulated by geographic, technological or economic boundaries and do not have clearly defined services requiring separate pricing structures. The ineffective way intercarrier compensation is currently regulated is not reflective of this limitless communications marketplace.

III. Objectives of a Unified Intercarrier Compensation Mechanism

In seeking more permanent and progressive alternatives to the existing intercarrier compensation regime, the Commission hopes to consummate the pro-competitive vision of the 1996 Act. This vision includes numerous complex components. The most critical goals from ALLTEL's perspective as they relate to intercarrier compensation are:

- Deregulation reliant on market forces;
- Competitive viability of multiple carriers;
- Continued investment in advanced services; and
- Preservation and advancement of universal service.

The current system's patchwork of invasive and inconsistent regulation undermines these goals by relying on administrative rules rather than market conditions. The 1996 Act's pro-competitive vision will only be recognized if it is simultaneously considered in the context of its deregulatory intentions. We must examine how these important issues will be addressed by new intercarrier compensation mechanisms.

A. Deregulation Based on Market Forces

Movement away from intercarrier compensation and toward full cost recovery from customers will magnify and expand the case for less intrusive regulation. For ILECs currently under the most abstruse regulatory restraints, the Commission should reexamine traditional legacy rules whose negative impacts will be compounded in the context of any new intercarrier Compensation regime. Many of these legacy rules are already outmoded and onerous in the converged telecommunications environment, and will become even more burdensome as the marketplace evolves.

Deregulation must occur sooner than later. The Commission should move immediately to eliminate current rules which prevent carriers from offering innovative rate and services packages or other forms of pricing flexibility. The longer deregulation is delayed, the greater the detrimental affect on the industry, innovation and the consumer.

A marketplace transition to a new intercarrier compensation mechanism should be devoid of lengthy pricing reviews and should allow contract pricing, term pricing, capacity-based pricing and assorted bundles of services to be priced on a package basis. Examples of such ratemaking flexibility abound for interexchange carriers, diversified entrants and ISPs, all of whom routinely offer highly varied rate and service packages. Other pricing innovations should include the availability of multi-state local service options. Without this pricing flexibility, a carrier's ability to recover costs **from** end users will be hampered, thereby throwing even greater responsibility for cost recovery on universal service mechanisms. Deregulation of the existing pricing system is an integral step toward competitive panty and market equilibrium reflecting true cost and value differences.

B. Competitive Viability of Multiple Carriers

The communications marketplace is in flux and will continue to develop differently from market to market. Competition's survival and development will be contingent upon the Commission's willingness to be competitively neutral and to eschew the asymmetric regulation that harms long-term consumer interests.

New intercarrier compensation mechanisms must not benefit the large national players at the expense of the smaller regional players. New mechanism must allow companies with smaller customer bases to reasonably recover costs and stay competitive with larger carriers. Existing mechanisms, such as wholesale opportunities, must continue to provide support for retail offerings in areas that do not or cannot operate at full capacity. New mechanisms should not discriminate among different technologies or network configurations by favoring one over the other. The Commission has long proclaimed technological neutrality as a goal and should take great care here to assure that it is realized.

ALLTEL's wireline companies serve predominantly rural areas. Compared to non-rural carriers, rural carriers generally have higher operating and equipment costs, which are attributable to lower subscriber density and smaller exchanges. They lack certain economies of scale, scope and density. It is crucial to rural carriers that interexchange access charges be transitioned over a period of time, sufficient to avoid rate shock and capital spending interruptions.

The Commission has already given price-cap ILECs the flexibility to manage reductions in interexchange access charges by adopting the *CALLS* ***Order.*** With the recent adoption of the *Reciprocal Compensation Order* and the *CLEC Access Charge Order* the Commission has also adopted interim measures that allow ISPs and CLECs to anticipate and manage their financial futures. Rate of return carriers have been left without the flexibility to chart an economic glide path because the MAG plan is still pending before the Commission.

The MAG plan is a five year transitional plan intended to provide predictable levels of compensation to rural carriers so they may continue to provide affordable, quality services in rural America.[10] The MAG plan is a comprehensive plan that would create a more efficient access rate structure, more explicit universal service support and new incentives for rate of return carriers to increase efficiency and invest in advanced services.

The **MAG** plan proposes to increase the cap on Subscriber Line Charges (SLC) for all rate of return ILECs, tracking the SLC caps for carriers subject to the ***CALLS Order.*** For certain ILECs, the plan also lowers the Composite Access Rate (CAR) to **1.6** cents per minute on average two years after the start of the transition period. The **MAG** plan proposes a glide path that will allow rate of return ILECs flexibility to control administrative and regulatory burdens. Without the flexibility of such **a** plan, rate **of** return ILECs will not have adequate notice to avoid economic displacement and rate shock to customers. ALLTEL urges the Commission to adopt the MAG plan without modification.

C. Continued Investment in Network and Advanced Services

An orderly, managed transition must be established if new intercarrier compensation regulation is going to drastically alter the way a carrier collects revenue and recovers legitimate costs. Rural carriers in particular must have time to modify their business plans to control costs and recover revenues from alternative sources if existing networks are to be maintained and advanced services are to be increasingly provisioned

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[10] *Federal-State Joint Board on Universal Service, CC* Docket No. 96-45, *Multi-Association Group (MAG) Planfor Regulation of interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, CC* Docket *00-256,* Fourteenth Report and Order, **para.1** (2001) *(Fourteenth Report and Order).*

in all regions of the nation. The Commission must adopt policies and mechanisms to accommodate these market and operational circumstances faced by telecommunications carriers serving high cost areas. If prices are not affordable and reasonably comparable or cannot be sustained, universal service and/or continued wholesale charges must be available.

While the average rural end user is denied advanced services and must absorb increased costs for existing service, the high volume end users will benefit from broadband roll out and reduced prices as new entrants continue to target the higher margin markets. **As** advanced services are rolled out to high margin markets without appropriate safeguards, the digital divide will widen between the rural and urban consumer.

D. Preservation and Advancement of Universal Service

The proposed plan will shift cost recovery responsibility among different beneficiaries and users of local networks. There will be winners and losers among different classes of carrier, customer, services and market location – especially with respect to rural and urban users. Thus, the proposed regime will necessitate adjustments and perhaps additions to current universal service support mechanisms. Reasonable assurances of the opportunity to recover costs sunk in current networks are absolutely imperative if capital markets are to continue to fund critical infrastructure investment to meet market demand and competitive pressures. Under the proposed regime, current wholesale cost recovery will shift to the end user. In areas where end user recovery results in rates that are not affordable and reasonably comparable to those available in urban areas, universal service support will be required. The Commission must assure that appropriate mechanisms for assuring sufficient support are in place before exposing carriers to rate shocks that may accompany the proposed changes.

The Commission must provide for universal service support in ways that are explicit, sufficient and predictable. It is unlikely that the current universal service mechanism will provide sufficient support for high cost areas under the proposed bill and keep regime. If the Commission intends to implement bill and keep for all current wholesale services, and bill and keep proposes to reduce both reciprocal compensation and access charges to zero, then there is **a** high probability that the states will ultimately be forced to reduce intrastate access rates to zero (since the incentive for regulatory arbitrage to bypass interstate access will be very high), placing an even greater potential burden on universal service.

IV. Discussion of a Bill and Keep Regime

Converting from the current intercarrier compensation network to bill and keep poses a daunting challenge. In our current calling-party-network-pays("CPNP") system, the calling party, deemed the primary beneficiary of the call, is responsible for the transport costs associated with the call. Under bill and keep, the called party would share in the cost of the call because of their decision to be on the network and receive calls. This economic principle of cost causation is consistent with the Commission's desire in the NPRM to shift a portion of cost recovery to the end user customer.

In the NPRM, the Commission includes a description of two theoretical constructs offeringjustifications for a bill and keep approach to intercarrier compensation: Central Office Bill and Keep ("COBAK") and Bill Access to Subscriber Cost Splits ("BASICS"). Both proposals rely on negotiating network interconnection agreements initially, but they differ in the default provisions that would be triggered should negotiations fail. It should be noted that COBAK and BASICS are theoretical constructs untested by actual market events.

Under COBAK, no carrier may recover any cost of its customers' local access facilities from an interconnecting carrier, and the calling party's network is responsible for the cost of transporting the call to the called party's central office.[11] In short, COBAK sets the cost of interconnection between parties at zero requiring local carriers to recover the cost of termination from their end user, thereby theoretically eliminating the terminating access monopoly.[12] The BASICS proposal proposes slightly different rules with a similar result: networks should recover all intra-network costs from their end-user customers, and the costs that result purely from interconnection are divided equally between the networks.[13] Under either default proposal, a significant portion of the cost recovery is shifted to the end user. In certain circumstances the impact will likely be so severe that the current universal service mechanisms will not be able to absorb the impact, both in terms of the sufficiency of support and in terms of maintaining equitable contributions.

Both COBAK's and BASICS' default proposal contain flaws above and beyond the potential upheaval of universal service in the wake of radical revenue stream reductions. The BASICS proposal, in proposing a split in the incremental interconnection costs equally among carriers (with remaining costs recovered from the carrier's end user), does not clearly define how this would be accomplished. Carriers would bid on the right to provide transport to another network, but agreeing on the

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[11] *Intercarrier Compensation* ***Notice*** **at** ¶ *23.*
[12] *Id. at* ¶ *53.*

incremental cost of interconnection and refereeing the bidding process remains undefined and may require more regulatory intervention, not less.

Under COBAK, a called party's carrier cannot charge **an** interconnecting carrier to terminate a call (each carrier recovers the cost of the loop and local switch from its end-user). However, by making the calling party's network responsible for the cost of transporting a call between the calling party's central office and the called party's central office, COBAK creates a potential point of interconnection ("POI") problem. If a carrier's switch is located many miles from where a call terminates, the originating carrier could incur huge costs in transporting traffic to a terminating carrier switch. These costs would be passed on to the end user customer.

There needs to be a geographical limit on the network access provider's obligations to reach the POI. Resolution of this POI issue, as well as other matters discussed below, will be critical determining factors in the viability of bill and keep as a workable replacement intercarrier compensation mechanism.

IV. Practical Consequences of Bill and Keep

Transition to an intercarrier compensation system based on bill and keep will be slow and costly to rate of return carriers and their end users. **As** the implicit access revenue subsidies currently collected by rate of return carries moves to zero, legitimate costs will have to be recovered elsewhere. State access subsidies will likely decrease as well (to avoid arbitrage opportunities), potentially compounding the rate shock for ILEC customers. The Commission acknowledges that such a shift would "likely result in some increase in flat-rated charges assessed against end users" and "further increase the rates

[13] *Intercarrier Compensation Notice* at ¶ 25.

of customers in high-cost areas."[14] Rural carriers will have to rely on their smaller customer base and universal service to recover these costs. In order to keep these increased rates within reason, monies that could be better spent improving network quality and deploying advanced service will be reallocated. At a time when the demand for faster, reliable, ubiquitous broadband service is increasing across the nation, the possibility of network infrastructure degradation runs counter to the public interest.

VII. Conditions Precedent to an Effective Intercarrier Compensation Mechanism

In order to fulfill the objectives of a unified intercarrier compensation mechanism discussed above, the following conditions must be firmly established before the transition to a new intercarrier compensation regime commences:

- Innovative Pricing Opportunities
- Transitional Equity
- Universal Service Rights vs. Responsibilities for Carriers of Last Resort
- Companion and Concurrent Changes In Deregulatory Policies

First, the Commission must authorize dramatic pricing flexibility to allow carriers to better prepare for a new system. If an intercarrier compensation regime intends to replace access charges with increased end user rates, carriers must have the pricing flexibility to implement capacity-based pricing plans, package pricing and other pricing plans to recover from end users in a reasonable and affordable manner. Otherwise, the true subsidy needs that must be calculated prior to the implementation of such a regime will be distorted. Second, the transitional equities issue will have to be addressed. A viable intercarrier compensation structure must allow each network access provider the

[14] ***Intercarrier Compensation Notice*** **ai** ¶ 123

opportunity and flexibility to establish a mechanism to recover their network access costs from the end user customer at both the interstate and intrastate levels. Third, in conjunction with envisioned increase in end user rates, a comprehensive universal service mechanism must be in place that provides support for customers that reside in areas in which prices are not or will not be affordable. Fourth, the new regime must be implemented simultaneously at both the state and federal levels, otherwise, arbitrage opportunities will negate any benefits of a new intercarrier compensation mechanism.

VII. Conclusion

In order to achieve effective intercarrier compensation reform, the above mentioned safeguards will have to be present to minimize the collateral damage to end users of the new system. Discretion requires a further discussion of the current CPNP regime and continued analysis and assessment of the COBAK and BASICS proposals. ALLTEL urges cautious and conscientious analysis going forward and feels it would be beneficial for the Commission to issue a Further Notice of Proposed Rulemaking requesting additional comments on this subject.

The proposed bill and keep system would fundamentally change the current cost recovery mechanisms. While ALLTEL supports reform of the existing patchwork of regulation, implementation of a theory-driven bill and keep system is not prudent without further investigation into the potential material impacts of such a regime. There are less drastic ways to improve the current intercarrier compensation system. Pricing flexibility must be immediately implemented to assist in determining true subsidy needs. The condition precedents discussed above must be in place prior to any intercarrier compensation transition. Adoption of the MAG plan would facilitate the transition. In the interim, the benefits of deregulation based on pricing flexibility would be efficient, administratively less costly, and remove the Commission from its role as regulatory referee.

A reasonable intercarrier compensation mechanism must provide all parties with the opportunity to minimize collateral harms. The Commission must take a broad look at all the participants that will be affected by this rulemaking. ALLTEL hopes these comments provide valuable insight that facilitates this rulemaking process.

Respectfully submitted,

ALLTEL Communications, Inc.

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August 21,2001